

(3)  
No. 86-896

Supreme Court, U.S.

FILED

FEB. 17 1987

JOSEPH F. SPANIO, JR.  
CLERK

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

BENTLEY LABORATORIES, INC.,

*Petitioner,*

v.

SHILEY, INC.,

*Respondent.*

On Petition for a Writ of Certiorari to the United  
States Court of Appeals for the Federal Circuit

## PETITIONER'S REPLY BRIEF

ROY E. HOFER

One IBM Plaza, Suite 4100

Chicago, Illinois 60611

(312) 822-9800

*Attorney for Petitioner*

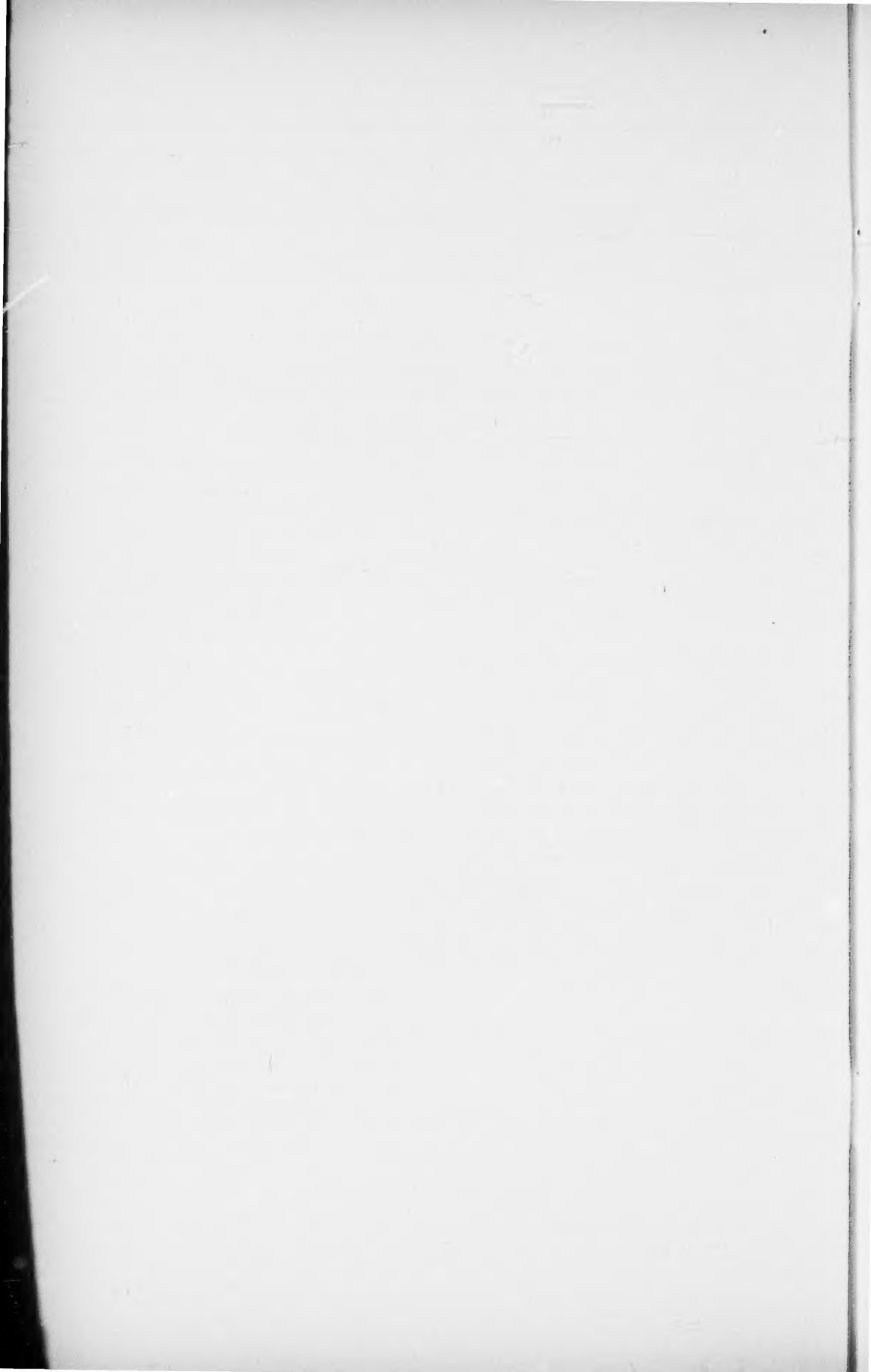
*Of Counsel:*

GARY M. ROPSKI

MARK J. BUONAIUTO

WILLIAM BRINKS OLDS HOFER

GILSON & LIONE LTD.



**STATEMENT PURSUANT TO RULE 28.1**

---

American Hospital Supply Corp. is the parent corporation of petitioner Bentley Laboratories, Inc. Baxter Travenol Laboratories, Inc. is the parent corporation of American Hospital Supply Corp. Petitioner has no subsidiaries or affiliates.

## TABLE OF CONTENTS

---

	PAGE
STATEMENT PURSUANT TO RULE 28.1 ..	i
TABLE OF CONTENTS .....	ii
TABLE OF AUTHORITIES .....	iii
ARGUMENT IN REPLY:	
I.	
ALTHOUGH SHILEY ARGUES THE CAFC PUR- PORTS TO USE A "DUE CARE" OR SIMPLE NEGLIGENCE STANDARD FOR AWARDED PUNITIVE DAMAGES, THE CAFC HAS AC- TUALLY ELEVATED THE "TOTALITY OF THE CIRCUMSTANCES" EVIDENTIARY ANALYSIS TO A SUBSTANTIVE STANDARD .....	1
II.	
BENTLEY DOES NOT OBJECT TO THE USE OF THE "TOTALITY OF THE CIRCUMSTANCES" AS AN EVIDENTIARY ANALYSIS, BUT RATHER TO ITS USE AS A SUBSTANTIVE STANDARD WITHOUT ADEQUATE LEGAL GUIDELINES .....	3
III.	
EVEN ASSUMING THE CAFC HAS ACTUALLY USED A "DUE CARE" OR SIMPLE NEGLI- GENCE STANDARD FOR WILLFUL INFRINGE- MENT, THIS COURT HAS LONG RECOGNIZED THAT MERE NEGLIGENCE IS NOT AN AP- PROPRIATE BASIS FOR IMPOSING PUNITIVE DAMAGES .....	6
CONCLUSION .....	9

## TABLE OF AUTHORITIES

---

<i>Cases</i>	<i>PAGE</i>
<i>American Original Corp. v. Jenkins Food Corp.</i> , 774 F.2d 459 (Fed. Cir. 1985) .....	4
<i>Central Soya Co. v. Geo. A. Hormel &amp; Co.</i> , 723 F.2d 1573 (Fed. Cir. 1983) .....	2
<i>Coleman Co. v. Holly Mfg. Co.</i> , 269 F.2d 660 (9th Cir. 1959) .....	3
<i>CPG Prods. Corp. v. Pegasus Luggage, Inc.</i> , 776 F.2d 1007 (Fed. Cir. 1985) .....	2
<i>Deere &amp; Co. v. International Harvester Co.</i> , 658 F.2d 1137 (7th Cir. 1981) .....	3
<i>Illinois v. Gates</i> , 462 U.S. 213 (1983) .....	4, 5
<i>S.C. Johnson &amp; Son, Inc. v. Carter-Wallace, Inc.</i> , 781 F.2d 198 (Fed. Cir. 1986) .....	2
<i>King Instrument Corp. v. Otari Corp.</i> , 767 F.2d 853 (Fed. Cir. 1985), <i>cert. denied</i> , 106 S. Ct. 1197 (1986) .....	4
<i>Kloster Speedsteel AB v. Crucible Inc.</i> , 793 F.2d 1565 (Fed. Cir. 1986) .....	2
<i>Lear, Inc. v. Adkins</i> , 395 U.S. 653 (1963) .....	8
<i>Massachusetts v. Upton</i> , 466 U.S. 727 (1984) ...	4
<i>Meritor Savings Bank, F.S.B. v. Vinson</i> , 106 S. Ct. 2399 (1986) .....	5, 6
<i>Milgo Elec. Corp. v. United Business Communica- tions Corp.</i> , 623 F.2d 645 (10th Cir.), <i>cert. denied</i> , 449 U.S. 1066 (1980) .....	2, 3

<i>Milwaukee &amp; St. Paul Ry. Co. v. Arms</i> , 91 U.S. 489 (1875) .....	6, 7
<i>Rolls-Royce Ltd. v. GTE Valeron Corp.</i> , 800 F.2d 1101 (Fed. Cir. 1986) .....	2, 4
<i>Shatterproof Glass Corp. v. Libbey-Owens Ford Co.</i> , 758 F.2d 613 (Fed. Cir.), cert. dismissed, 106 S. Ct. 340 (1985) .....	4
<i>Smith v. Wade</i> , 461 U.S. 30 (1983) .....	7, 8
<i>Underwater Devices, Inc. v. Morrison-Knudsen Co.</i> , 717 F.2d 1380 (Fed. Cir. 1983) .....	2

#### *Rules*

S. Ct. R. 22.5 .....	1
----------------------	---

IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1986

---

---

**BENTLEY LABORATORIES, INC.,**

*Petitioner,*

v.

**SHILEY, INC.,**

*Respondent.*

---

---

**On Petition for a Writ of Certiorari to the United  
States Court of Appeals for the Federal Circuit**

---

**PETITIONER'S REPLY BRIEF**

---

Pursuant to Supreme Court Rule 22.5, Bentley hereby replies to the arguments first raised by Respondent Shiley, found in Sections I and II (pp. 7-13) of Shiley's Brief In Opposition (hereinafter cited as "Opp").

**I.**

**ALTHOUGH SHILEY ARGUES THE CAFC PURPORTS TO USE A "DUE CARE" OR SIMPLE NEGLIGENCE STANDARD FOR AWARDED PUNITIVE DAMAGES, THE CAFC HAS ACTUALLY ELEVATED THE "TOTALITY OF THE CIRCUMSTANCES" EVIDENTIARY ANALYSIS TO A SUBSTANTIVE STANDARD.**

Shiley's Brief In Opposition is a flawed attempt to supply the rational legal standard the CAFC has refused to provide. Carefully culling language from the CAFC's ear-

liest pronouncement on willful patent infringement, Shiley contends that the CAFC has "really" established a "due care," or simple negligence, standard for determining whether punitive damages should be assessed in patent cases (Opp 7). According to Shiley, the CAFC's use of the "totality of the circumstances" is nothing more than "a directive to the trier of fact that it must look to all the facts in the evidentiary record that bear on the issue" (Opp 10).

But this is not so. As discussed in the petition, the CAFC has only paid lip service to any so-called "due care" standard. The CAFC referred to this "standard" in only 6 of the 17 cases discussing the willfulness issue,<sup>1</sup> and in the rest it is not mentioned at all. It is apparent that the CAFC is using the "totality of the circumstances" as a rubric to justify its decision, and is not analyzing "due care" or any set of pertinent factors in a fashion which leads to consistent results and thereby provides guidance for the courts, the bar and competitors.

Furthermore, Shiley's contention that a "due care" standard was applied by the regional circuits prior to the creation of the CAFC (Opp 8-9) is not borne out by the case law. A careful reading of the case law cited by Shiley on this point reveals that the courts were actually applying a "bad faith" or "reckless disregard of plaintiff's patent rights" standard, not "due care." See *Milgo Elec. Corp.*

---

<sup>1</sup> *Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1109-10 (Fed. Cir. 1986); *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1579-80 (Fed. Cir. 1986); *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 199 (Fed. Cir. 1986); *CPG Prods. Corp. v. Pegasus Luggage, Inc.*, 776 F.2d 1007, 1015 (Fed. Cir. 1985); *Central Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1577' (Fed. Cir. 1983); *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed. Cir. 1983).



*v. United Business Communications Corp.*, 623 F.2d 645, 665 (10th Cir.) (punitive damages are proper where “defendant’s conduct is intentional, willful and made with reckless disregard of the plaintiff’s patent rights”), *cert. denied*, 449 U.S. 1066 (1980); *Coleman Co. v. Holly Mfg. Co.*, 269 F.2d 660, 666 (9th Cir. 1959) (“Such a faithful copying reveals an intentional disregard of the appellee’s patent rights . . . .”); *Deere & Co. v. International Harvester Co.*, 658 F.2d 1137, 1146 (7th Cir. 1981) (“section [284] has been interpreted by the courts to apply only in cases of bad faith where conscious and deliberate infringement are found”). These courts referred to a failure to exercise “due care” on being notified of plaintiff’s patent rights only as *one element* of an ultimate finding of bad faith or “reckless disregard.” Therefore, a failure to exercise “due care” was not, as Shiley contends, a sufficient basis in itself for an award of punitive damages.

Finally, if the courts are relying upon the same legal standard as prior to the creation of the CAFC, Shiley fails to explain why willful infringement findings (as measured by cases in the courts of appeals) have *almost doubled* since that time (Pet 7-8, Tables 1 and 2).

## II.

**BENTLEY DOES NOT OBJECT TO THE USE OF THE “TOTALITY OF THE CIRCUMSTANCES” AS AN EVIDENTIARY ANALYSIS, BUT RATHER TO ITS USE AS A SUBSTANTIVE STANDARD WITHOUT ADEQUATE LEGAL GUIDELINES.**

Shiley suggests that Bentley is opposed to the use of a “totality of the circumstances” evidentiary analysis and that Bentley urges a mechanistic *per se* or “bright line” rule for determining punitive damages (Opp 10-12). Nothing could be further from the truth. Bentley does not object

to an analysis of all the evidence that bears on a particular issue. *The problem with the CAFC's use of this standard is that the CAFC has not provided guidelines for determining what evidence is relevant or how that evidence is to be weighed.*

Thus, in some cases the CAFC has permitted a competitor with knowledge of another's patent to escape the imposition of punitive damages even where it completely failed to obtain an opinion of competent counsel, or when the "opinion" was given by a non-lawyer employee. *E.g., Rolls-Royce Ltd. v. GTE Valeron Corp.*, 800 F.2d 1101, 1109-10 (Fed. Cir. 1986); *American Original Corp. v. Jenkins Food Corp.*, 774 F.2d 459, 465-66 (Fed. Cir. 1985); *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 866-67 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 1197 (1986); *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 628 (Fed. Cir.), *cert. dismissed*, 106 S. Ct. 340 (1985). Yet in the present case Bentley must pay punitive damages even though it was *more* prudent and relied upon the opinion of *admittedly competent outside patent counsel*.

Unlike the CAFC, this Court has never used a "totality" standard as a substitute for a probing legal analysis. Even the case law cited by Shiley reveals that this Court employs such an evidentiary analysis only when clear guidelines and parameters have been established through years of case law development or evidence of Congressional intent.

For example, in *Massachusetts v. Upton*, 466 U.S. 727 (1984), heavily relied upon by Shiley, this Court adopted and reinforced the "totality" analysis used in *Illinois v. Gates*, 462 U.S. 213 (1983). In *Gates*, this Court recognized that a "totality" analysis was bolstered by over 20 years

of Supreme Court jurisprudence construing the Fourth Amendment. *Id.* at 241-42. And unlike the CAFC, this Court did not simply enunciate a “totality” analysis without providing underlying factors and guidelines for its application: this Court expressly pointed out that “veracity,” “reliability,” and “basis of knowledge” were still relevant factors in determining probable cause and that “[o]ur earlier cases illustrate the limits beyond which a magistrate may not venture in issuing a warrant.” *Id.* at 230, 238-39. This Court also articulated how the various factors are to be weighted: “a deficiency in one [factor] may be compensated for, in determining the overall reliability of a tip, by a strong showing as to the other, or by some other indicia of reliability.” *Id.* at 233. Thus, while the courts may consider the “totality” of “circumstances,” this Court’s precedents clearly define and characterize what these “circumstances” are, and how they factor into a determination under the totality rule.

Likewise, in *Meritor Savings Bank, F.S.B. v. Vinson*, 106 S. Ct. 2399 (1986), this Court examined a sexual harassment action under Title VII of the Civil Rights Act. After concluding that a plaintiff may establish a violation of Title VII by proving that sexual discrimination has created “a hostile or abusive work environment,” *id.* at 2405, this Court considered whether certain evidence admitted by the district court could properly be considered on remand. In concluding that this evidence was admissible, this Court relied on the evidentiary standard set forth in the EEOC guidelines: the trier of fact must look to “the totality of the circumstances, such as the nature of the sexual advances and the context in which the alleged incidents occurred.” In addition to the factors expressly listed in the “totality” standard, the EEOC guidelines, in turn, were based on “a substantial body of judicial deci-

sions and EEOC precedent" defining the relevant circumstances and delineating the parameters of sexual harassment. *Id.* at 2406-07.

The CAFC has provided no such factors or guidelines to permit a rational evidentiary analysis of the totality of the circumstances in light of the pertinent standard.

### III.

**EVEN ASSUMING THE CAFC HAS ACTUALLY USED A "DUE CARE" OR SIMPLE NEGLIGENCE STANDARD FOR WILLFUL INFRINGEMENT, THIS COURT HAS LONG RECOGNIZED THAT MERE NEGLIGENCE IS NOT AN APPROPRIATE BASIS FOR IMPOSING PUNITIVE DAMAGES.**

Even assuming *arguendo* the CAFC case law has expressed and explained a "due care" or negligence standard for willful infringement, this is neither a rational nor an appropriate standard for imposing *punitive* damages. In *Milwaukee & St. Paul Ry. Co. v. Arms*, 91 U.S. 489 (1875), this Court held that a standard which permits punitive damages even on a showing of *gross* negligence was improper as a matter of law:

"Gross negligence" is a relative term. It is doubtless to be understood as meaning a greater want of care than is implied by the term "ordinary negligence" . . . . *But the absence of this care, whether called gross or ordinary negligence, did not authorize the jury to visit the company with damages beyond the limit of compensation for the injury actually inflicted.* To do this, there must have been some willful misconduct, or that entire want of care which would raise the presumption of a conscious indifference to consequences.

*Id.* at 495 (emphasis added).

After an exhaustive review of the common law of punitive damages, this Court reaffirmed the continuing vitality of that approach in *Smith v. Wade*, 461 U.S. 30 (1983). In *Smith*, this Court held that to show entitlement to punitive damages under 42 U.S.C. § 1983 the plaintiff must meet a threshold of "reckless or callous indifference to the federally protected rights of others." *Id.* at 56.<sup>2</sup>

No such reckless or callous indifference was present here: Bentley designed its product more than a year *before* Shiley's patent issued (Opp 3), began selling its product two months *before* Shiley's patent issued (Opp 3), *promptly* obtained an oral non-infringement opinion from its admittedly competent patent counsel (Opp 3-4) when it independently learned of Shiley's patent (Opp 3), and received a second, written non-infringement opinion (Opp 4) *before* Shiley ever alleged infringement.<sup>3</sup>

---

<sup>2</sup> In dissent, Justice Rehnquist read *Milwaukee* more stringently to require *an even higher* threshold: "Actual malice" or "intent to injure." *Id.* at 70-72 (Rehnquist, J., dissenting). Bentley is not aware of any case in which this Court has approved a "lack of due care" or simple negligence standard as a sufficient basis for imposing punitive damages to vindicate a federally-created right.

<sup>3</sup> Like the CAFC's opinion on this issue (A 8-10), Shiley never grapples with these undisputed facts or shows how these facts can possibly be reconciled with the conclusion that Bentley *willfully* infringed Shiley's patents. Instead, Shiley refers to four additional "circumstances" which allegedly show a lack of due care (Opp 3-4). However, a bare *inference* of copying that allegedly occurred *before* Shiley's patent issued (Opp 3, 14) is insufficient to show lack of due care, particularly since the district court would *not* rely upon this inference in reaching its willfulness conclusion (A 22). And the absence of a supporting business record (Opp 3-4, 16) is not affirmative proof that the oral non-infringement opinion was not rendered. Similarly, a lack of evidence that counsel prepared a proper opinion (Opp 4, 16) is not affirmative proof that Bentley failed to exercise due care. Finally, counsel's November 1981

(Footnote continued on following page)

Therefore, even assuming that the CAFC is employing a simple "due care" negligence standard as a basis for awarding punitive damages, it is essential that this Court intervene to replace this standard with one that properly effectuates the policies of punitive damages: punishment and deterrence, *see Smith*, 461 U.S. at 51. This is particularly so in patent infringement actions because of the anti-competitive effect of invalid patents that go unchallenged for fear of punitive damages. A standard that punishes those who are merely negligent improperly discourages good faith challenges to patent validity, in contravention of the policy enunciated by this Court in *Lear, Inc. v. Adkins*, 395 U.S. 653, 670, 674 (1963).

---

<sup>3</sup> *continued*

letter (Opp 4, 15) was a *confirmation* of the previous non-infringement opinions; the recommended design change was only suggested assuming the "worst case," i.e., an unwarranted verdict against Bentley (DX 297, JA 2421).



## CONCLUSION

---

If the present dearth of guidelines in the CAFC decisions awarding punitive damages for patent infringement is what Respondent calls "routine," then this Court's review is urgently needed. A Petition for Certiorari should be granted to permit this Court to clarify and set meaningful standards in this important area of punitive damages, lest proper and vigorous competition be thwarted.

Respectfully submitted,

ROY E. HOFER  
One IBM Plaza, Suite 4100  
Chicago, Illinois 60611  
(312) 822-9800

*Attorney for Petitioner*

*Of Counsel:*

GARY M. ROPSKI  
MARK J. BUONAIUTO  
WILLIAM BRINKS OLDS HOFER  
GILSON & LIONE LTD.